Nilfisk full-year results 2019

Webcast presentation, February 25, 2020

Nilfisk

Forward looking statements

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2019 at a glance

Key highlights

- Organic growth of -4.1%
- EBITDA margin before special items* of 9.9%
- In line with latest guidance but lower than initial expectations for 2019
- Good progress in the Nilfisk transformation

*Excl. IFRS 16 uplift

Second year of transformation: Progress towards a global operating model

Highlights

- Structures and organization
  - Functional organization and leadership team established
  - Alignment of organizational structures in EMEA and US
  - Integration of IVS and HPW businesses allowing sales force to sell full portfolio
  - Integration of Consumer business and exit from Pacific region
  - New DC footprint in EMEA initiated
- Upgraded commercial capabilities and front-end systems
  - Marketing and Service organizations established
  - Salesforce, ServiceMax, new web and e-commerce platforms
- Continued focus on autonomous
  - Introduction and roll-out of Liberty SC50 in several markets
  - Partnership with Brain Corp to develop second autonomous platform
- Expanding CSR initiatives and targets
  - Collection of baseline data across our entire organization
  - Joined the Science Based Target initiative committing to a 35% reduction of CO2 footprint from direct emissions and purchased electricity by 2030

Market and segment highlights

Americas

- Strong performance in Latin America and Canada in particular
- Revenue development in US lower than expected

291.3 mEUR
Revenue

-2.8%
Organic growth

EMEA

- Economic slowdown mainly in Central region, Germany in particular
- Rest of Europe mainly affected in the industrial segment

461.3 mEUR
Revenue

-2.2%
Organic growth

APAC

- Continued growth in China – albeit at a lower level
- Low performance in Australia throughout the year
- Singapore sales negatively affected by dealer performance and slowdown in marine industry

85.2 mEUR
Revenue

-4.3%
Organic growth

Consumer

- Organic growth of -11.8% mainly driven by market wide downturn in HPW high-season (H1)
- Exit of business in Pacific region as of Q4 2019
- Focusing on EMEA and integrating back-end operations

Private label

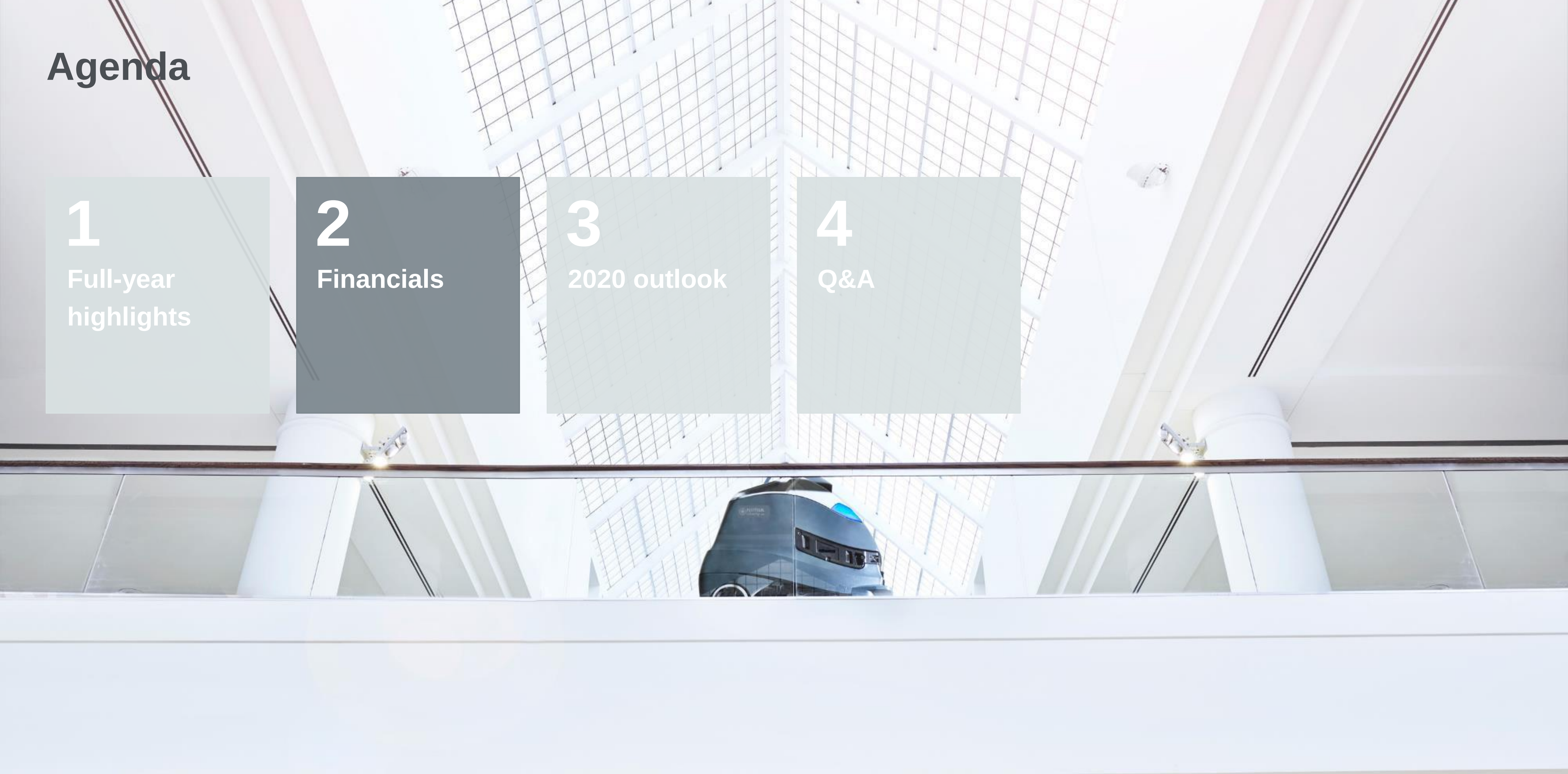
- Organic growth of -14.4% affected by cautious customer behavior

2020 - focus on commercial execution

Key priorities

- Deliver superior customer experience
  - Focus across our value chain
- Focus on our major markets including growing US
- Focus on growth opportunities, ex:
  - Autonomous
  - Cross-selling portfolio
  - Service
  - Viper products
- Focus the Consumer business

Nilfisk



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Financial performance for the full year and Q4

	FY	Q4
Revenue (mEUR)	**966.5**	**233.8**
Organic growth	**-4.1%**	**-6.3%**
Gross margin	**42.3%**	**40.3%**
Adjusted EBITDA margin before special items* (mEUR)	**9.9%**	**8.8%**
Free cash flow (mEUR)	**35.3**	**16.8**

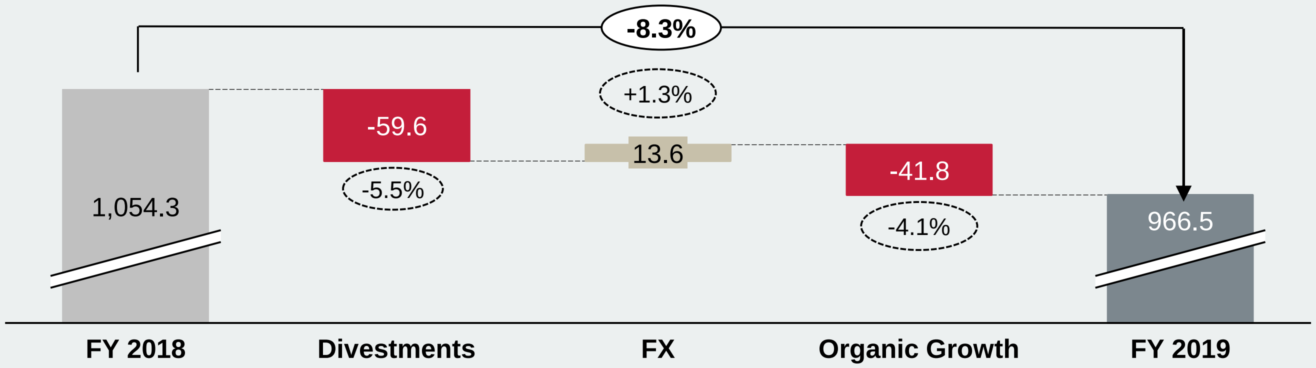
* Adjusted for IFRS 16 uplift of 26 mEUR for FY 2019 and 5.5 mEUR in Q4 2019

Key messages

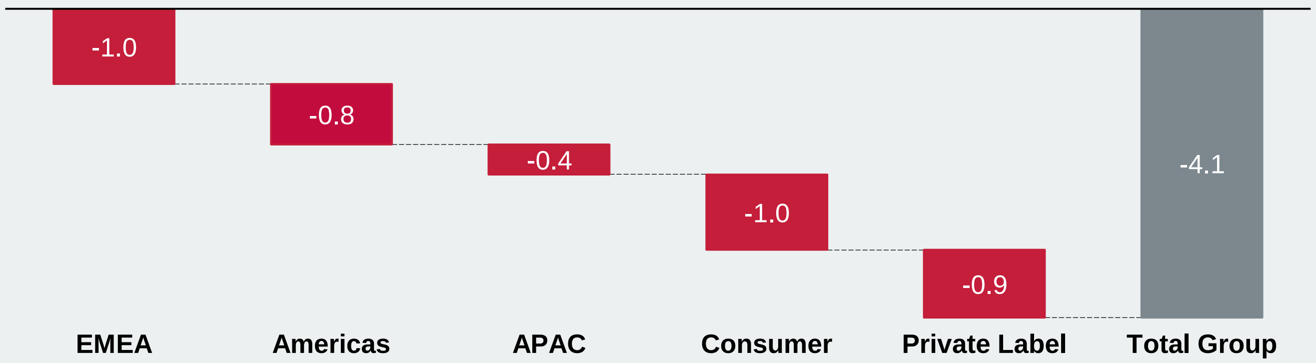
- Revenue significantly impacted by negative organic growth and divestments
- All segments contributing to negative organic growth FY. Q4 organic growth to a large extent impacted by Americas
- Full-year gross margin slightly improved, Q4 gross margin impacted by Consumer
- Negative operating leverage due to topline loss, despite cost saving initiatives
- Full-year free cash flow improved driven by lower special items

Full-year revenue and organic growth development

Revenue, mEUR



Organic growth contribution, %



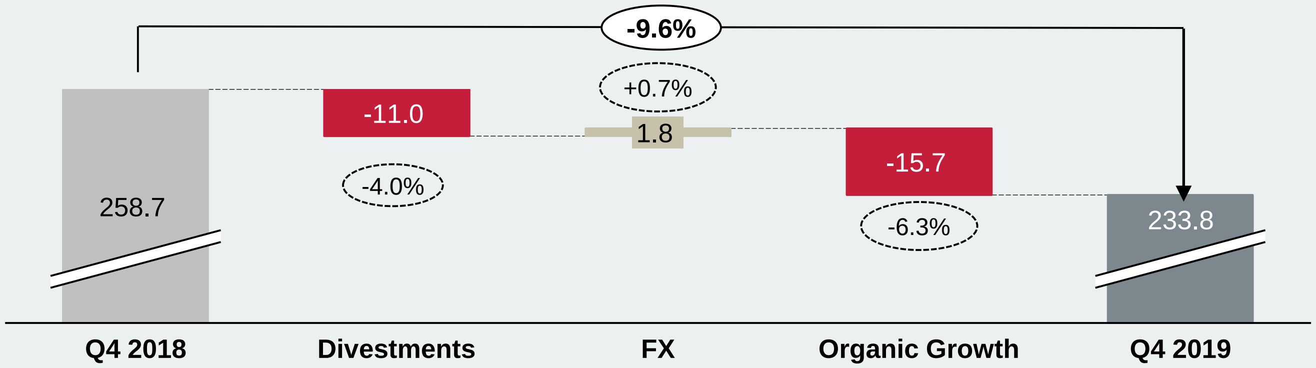
Comments

- Total reported revenue down by 8.3% vs. 2018
  - Divestment impact of -5.5%
  - Positive impact from FX of 1.3% (mainly due to USD)
  - Underlying organic growth of -4.1%

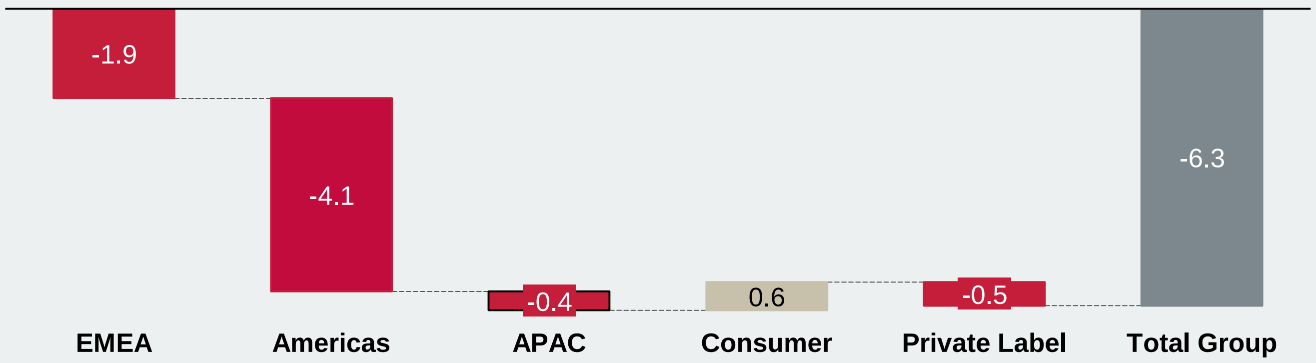
- Organic growth in the branded professional business of -2.6% compared to 2018
- Consumer business negatively impacted by tough high-pressure washer season during H1
- Private label business affected by cautious customer behavior affecting performance in H2 in particular

Q4 revenue and organic growth development

Revenue, mEUR



Organic growth contribution, %



Comments

- Total reported revenue down by 9.6% vs. Q4 2018
  - Divestment impact of -4.0%
  - Positive impact from FX of 0.7% (mainly due to USD)
  - Underlying organic growth of -6.3%

- Branded professional business down by 7.0% compared to Q4 2018 mainly due to lower sales in the US
- Consumer organic growth impacted by one-time sales prior to exit from Pacific region
- Private label decline less pronounced in Q4

EMEA

	FY		Q4	
	2019	2018	2019	2018
Revenue (mEUR)	**461.3**	**487.4**	**121.3**	**128.5**
Organic growth	**-2.2%**		**-3.7%**	
Gross margin	**47.1%**	**47.1%**	**45.1%**	**46.1%**
EBITDA margin bsi	**28.0%**	**24.9%**	**28.9%**	**25.4%**
Adjusted EBITDA margin bsi	25.4%	24.7%	26.3%	24.7%

Comments

Q4 2019

- Q4 organic growth of -3.7% mainly impacted by continued soft market conditions in Central region – Germany in particular
- Slightly negative organic growth in North and South regions with variations across markets
- Gross margin down by 0.9 percentage point mainly due to unfavorable mix
- EBITDA margin before special items (adjusted for IFRS 16 uplift and phantom shares) up by 1.6 percentage points mainly due to reversal of a provision related to past acquisition of 3rd party service partner

FY 2019

- Full-year performance negatively impacted by weakened market conditions mainly in the Central region as well as the industrial segment across markets in EMEA
- EBITDA margin before special items (adjusted for IFRS 16 uplift and phantom shares) up by 0.7 percentage point driven by divestments, lower salary costs and reversal of provision in Q4

Americas

	FY		Q4	
	2019	2018	2019	2018
Revenue (mEUR)	**291.3**	**286.5**	**66.4**	**74.7**
Organic growth	**-2.8%**		**-13.3%**	
Gross margin	**42.5%**	**43.4%**	**43.1%**	**43.4%**
EBITDA margin bsi	**18.9%**	**20.1%**	**17.0%**	**21.4%**
Adjusted EBITDA margin bsi	16.9%	20.1%	14.8%	21.3%

Comments

Q4 2019

- Q4 organic growth of -13.3% due to US. Lower sales to strategic accounts (high comps), weak industrial sales and continued softness in high pressure washers
- Gross margin down by 0.3 percentage point negatively impacted by US imposed tariffs
- EBITDA margin before special items (adjusted for IFRS 16 uplift and phantom shares) down by 6.5 percentage points mainly due to provisions

FY 2019

- Full-year organic growth in Americas of -2.8% positively impacted by strong growth in Canada and Latin America more than outweighed by negative organic growth in the US
- Gross margin negatively impacted by US imposed tariffs, primarily in H2
- EBITDA margin before special items (adjusted for IFRS 16 uplift and phantom shares) down by 3.2 percentage points due to higher external costs and one-off provisions in Q4

APAC

	FY		Q4	
	2019	2018	2019	2018
Revenue (mEUR)	**85.2**	**87.1**	**22.0**	**22.6**
Organic growth	**-4.3%**		**-4.3%**	
Gross margin	**40.0%**	**42.0%**	**37.3%**	**40.7%**
EBITDA margin bsi	**13.6%**	**16.0%**	**10.5%**	**17.3%**
Adjusted EBITDA margin bsi	10.7%	15.8%	7.7%	16.8%

Comments

Q4 2019

- Organic growth of -4.3% mainly due to lower sales in Australia
- Gross margin down by 3.4 percentage points compared to last year negatively impacted by inventory write-downs in Australia
- EBITDA margin before special items (adjusted for IFRS 16 uplift and phantom shares) down by 9.1 percentage points

FY 2019

- Organic growth of -4.3% mainly due to lower sales in Australia and Singapore
- Gross margin down by 2.0 percentage points compared to 2018 due to inventory write-downs in Australia and mix-effects
- EBITDA margin before special items (adjusted for IFRS 16 uplift and phantom shares) down by 5.1 percentage points due to both lower gross margin and higher overhead cost ratio

Other business units

Consumer

Q4 2019

- Organic growth of 12% in Q4 due to large one-time sales prior to exit from Pacific region
- Low margin sales and inventory write-down in Australia impacting gross margin negatively

FY 2019

- Exit from Pacific region in Q4 affecting reported growth. Underlying organic growth of -11.8% mainly due to low sales in Q2 and Q3
- Gross margin negatively impacted by low margin sales in Q4

Consumer	FY		Q4	
	2019	2018	2019	2018
Revenue (mEUR)	**75.8**	**94.9**	**12.4**	**19.0**
Organic growth	**-11.8%**		**12.0%**	
Gross margin	**29.8%**	**34.1%**	**5.6%**	**24.7%**

Private label and other

- Cautious customer behavior in H2 impacting organic growth of -14.4% for the full year and -10.4% in Q4
- Gross margin positively affected by mix-effects on products sold

Private label	FY		Q4	
	2019	2018	2019	2018
Revenue* (mEUR)	**52.9**	**98.4**	**11.7**	**13.9**
Organic growth	**-14.4%**		**-10.4%**	
Gross margin	**21.2%**	**19.6%**	**17.9%**	**15.8%**

* Divestments include HydraMaster and Outdoor and account for 37 mEUR of revenue decline full year and 1 mEUR in Q4.

Income statement

EUR million	FY 2019	FY 2018	Change	Q4 2019	Q4 2018	Change
Net sales	**966.5**	**1,054.3**	-87.8	**233.8**	**258.7**	-24.9
Reported growth	*-8.3%*	*-2.5%*	*-5.8%*	*-9.6%*	*-7.7%*	*-1.9%*
Organic growth	*-4.1%*	*2.0%*	*-6.1%*	*-6.3%*	*-1.9%*	*-4.4%*
COGS	-557.6	-612.0	54.4	-139.5	-151.0	11.5
Gross profit	**408.9**	**442.3**	-33.4	**94.3**	**107.7**	-13.4
Gross margin	*42.3%*	*42.0%*	*0.3%*	*40.3%*	*41.6%*	*-1.3%*
Overhead costs	**-350.3**	**-348.7**	-1.6	**-85.0**	**-81.1**	-3.9
Overhead cost ratio	*36.2%*	*33.1%*	*3.1%*	*36.4%*	*31.3%*	*5.1%*
EBITDA before special items	**121.4**	**125.5**	-4.1	**26.1**	**34.0**	-7.9
EBITDA margin bsi	*12.6%*	*11.9%*	*0.7%*	*11.2%*	*13.1%*	*-2.0%*
*Adjusted EBITDA margin**	*9.9%*	*11.5%*	*-1.6%*	*8.8%*	*12.4%*	*-3.6%*
Special items	-23.9	-68.5	44.6	-3.0	-32.3	29.3
EBITDA*	**98.7**	**69.8**	28.9	**23.3**	**2.0**	21.3
EBITDA margin	*10.2%*	*6.6%*	*3.6%*	*10.0%*	*0.8%*	*9.2%*
EBIT	**29.6**	**18.9**	10.7	**5.1**	**-7.1**	12.2
EBIT margin	*3.1%*	*1.8%*	*1.3%*	*2.2%*	*-2.7%*	*4.9%*
Net result	**8.7**	**10.0**	-1.3	**0.1**	**-4.9**	5.0

* 2019 adjusted for IFRS 16 (FY: 26 mEUR, Q4: 5.5 mEUR) and 2018 adjusted for Phantom shares (FY: 4.3 mEUR, Q4: 19 mEUR)

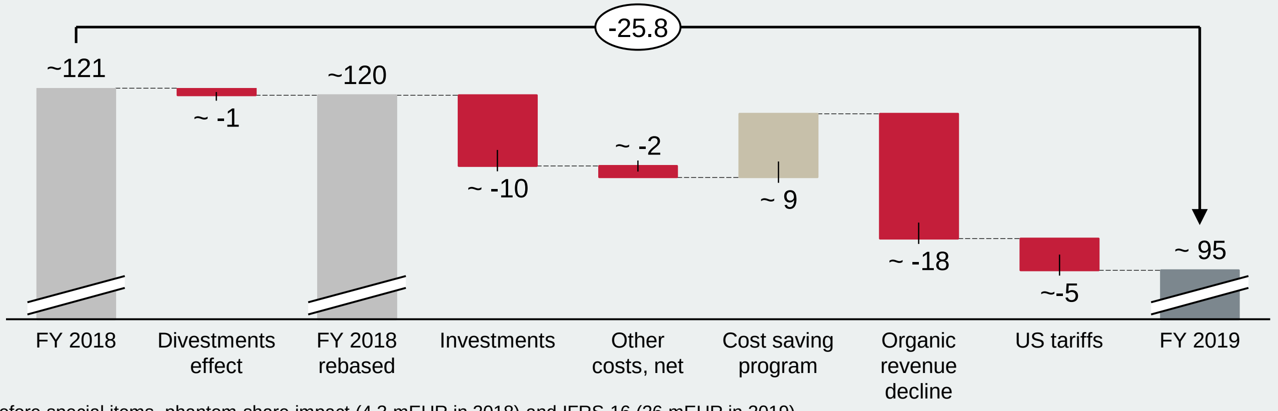
Highlights

- Total reported revenue down by 8.3% vs. 2018
- FY gross margin slightly improved vs. 2018
- Overhead costs up vs. 2018 as a net result of investments and cost savings
- Despite efforts to lower costs in H2 2019 in particular, overhead cost ratio significantly impacted by loss of topline
- Reported EBITDA before special items down 4.1 mEUR at 121.4 mEUR corresponding to a margin of 12.6%
- Net result of 8.7 mEUR down due to tax income in 2018

Development of EBITDA

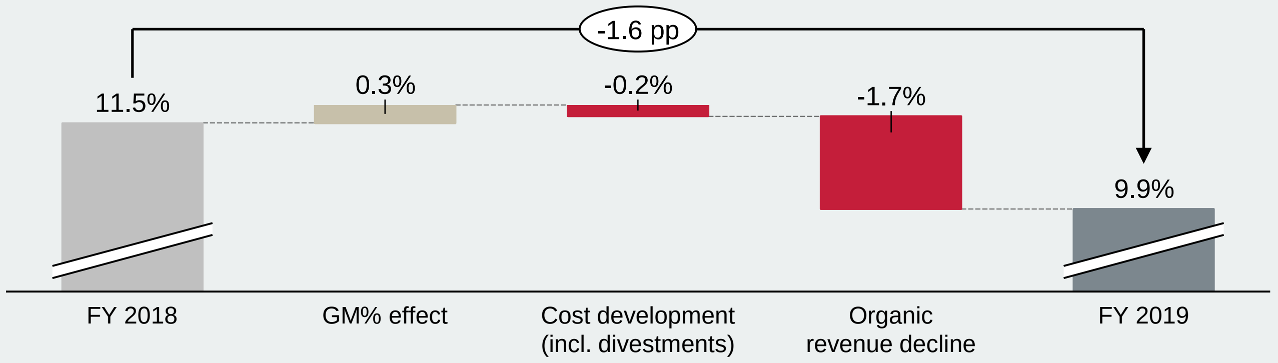
Before special items, IFRS 16 and phantom shares

EBITDA bridge, mEUR*



* Before special items, phantom share impact (4.3 mEUR in 2018) and IFRS 16 (26 mEUR in 2019)

EBITDA margin*



* Before special items, phantom share impact (0.4pp 2018) and IFRS 16 (2.7pp in 2019)

Comments

- Adjusted EBITDA before special items down by 25.8 mEUR.
  - Excluding divestments, approx. 2/3 of impact driven by revenue
  - Approx. 1/3 of decline due to tariffs as well as the net results of investments, that were not fully compensated for by stepped up cost savings
  - As a result the operating margin (see below) was down by 1.6 percentage points due to operating leverage

	FY 2019	FY 2018
Operating margin	9.9%	11.5%
Phantom share impact		0.4%
EBITDA margin before special items and IFRS 16	9.9%	11.9%
IFRS 16 uplift	2.7%	
Reported EBITDA margin before special items	12.6%	11.9%

Balance sheet and cash flow

EUR million	FY 2019	FY 2018	Change
Inventories	172.7	172.9	-0.2
Receivables	196.1	218.9	-22.8
Payables	210.0	223.0	-13.0
Reported NWC	157.9	170.4	-12.5
12m NWC ratio	*20.6%*	*18.5%*	*2.1%*
CAPEX	42.2	47.6	-5.4
Tangibles	9.2	13.8	-4.6
Intangibles	33.0	33.8	-0.8
CAPEX ratio %	*4.4%*	*4.5%*	*-0.1%*
Free cash flow excl. acquisitions/divestments	35.3	-8.6	43.9
RoCE	9.2%	16.7%	-7.5%
NIBD*	414.1	369.6	44.5
Financial gearing (excluding IFRS 16)	3.8 x	2.9 x	0.9

*Includes right-of-use liabilities of 56.2 mEUR

Comments

- NWC reduced by 12.5 mEUR mainly driven by lower receivables due to lower revenue
- LTM NWC ratio up by 2.1 percentage points
- CAPEX in tangibles lower than last year partly due to a change in presentation of rental machines
- Free cash flow up by 43.9 mEUR (17.9 mEUR net of positive IFRS 16 impact) mainly due to lower special items
- RoCE negatively impacted by IFRS 16 of -0.8 percentage point. Underlying ratio down by 6.7 percentage points mainly due to lower EBIT before special items
- NIBD down by 11.4 mEUR when adjusting for the effect of IFRS 16 (357.9 mEUR)

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Outlook 2020

- The adverse economic conditions in EMEA, which affected demand during 2019 are expected to continue into 2020. A pick-up in demand in the second half of the year is expected as this is in line with historic experience of 4 to 6 quarters of economic down-turn
- The softness of the manufacturing sector in US will expectedly continue
- Based on the current visibility only a minor negative impact from coronavirus is expected. Underlying conditions in APAC are considered stable, with demand in China being suppressed by on-going trade war
- A wide outlook range is driven by low visibility of the growth trajectory

Outlook

- Organic growth for the total business expected in the range -4% to 1% to a large extent due to Consumer and Private label
- Organic growth to be negative in the first half of the year, whereas we expect positive organic growth rates in the second half of the year
- EBITDA margin before special items expected at approx. 12%-13%

Modelling assumptions

• FX impact at current exchange rates:	*approx. -1%*
• Special items:	*approx. 10-15 mEUR*
• CAPEX ratio:	*approx. 3.5% - 4.0%*

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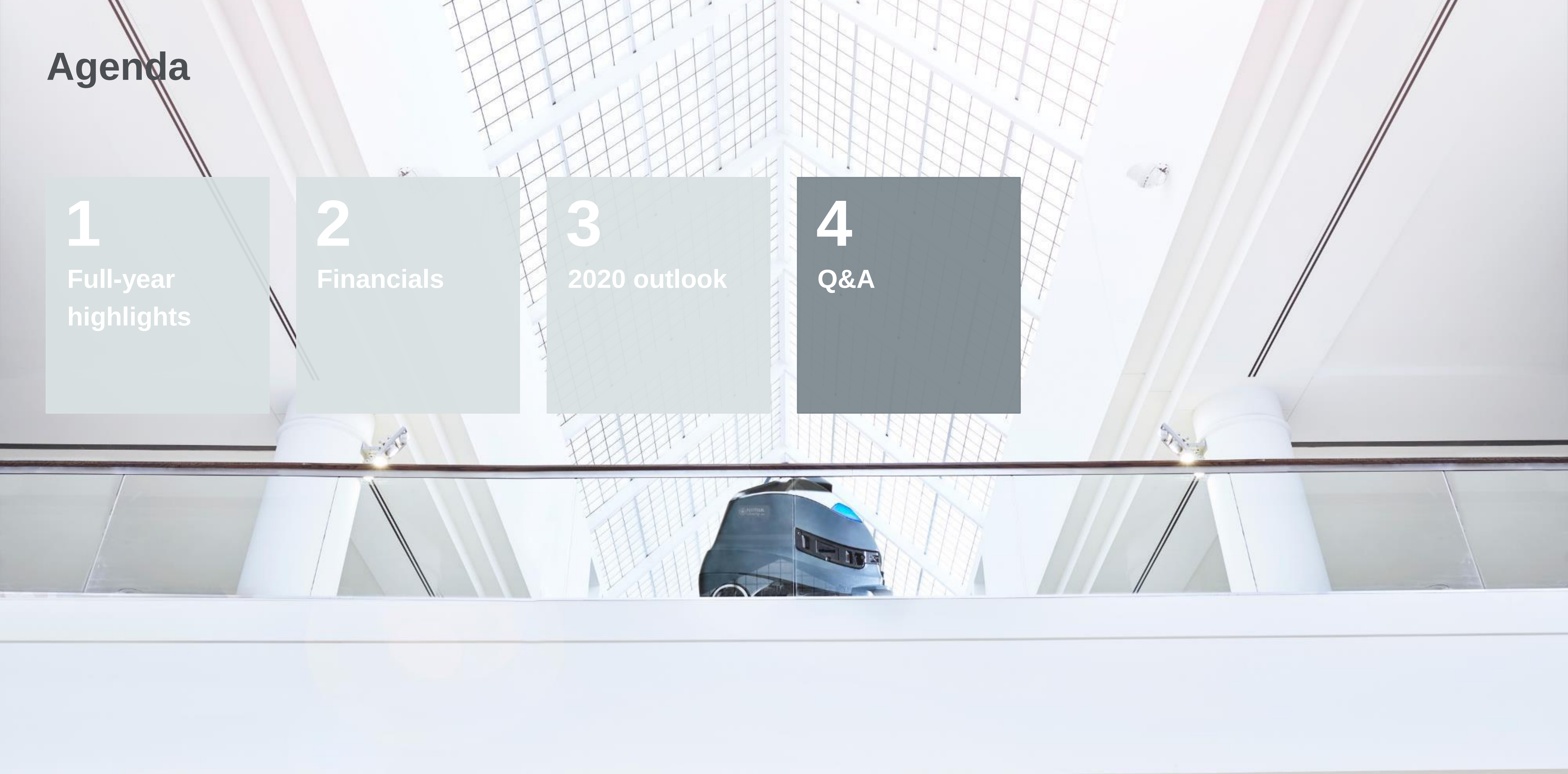

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